

# OVERSIGHT OF THE OFFICE OF INVESTMENT AND INNOVATION AT THE SBA

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## HEARING

BEFORE THE

### SUBCOMMITTEE ON HEALTH AND TECHNOLOGY

OF THE

### COMMITTEE ON SMALL BUSINESS

### UNITED STATES

### HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTEENTH CONGRESS

SECOND SESSION

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### Questions for the Record:

None.

### Answers for the Record:

None.

### Additional Material for the Record:

None.



## OVERSIGHT OF THE OFFICE OF INVESTMENT AND INNOVATION AT THE SBA

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TUESDAY, JANUARY 12, 2016

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON HEALTH AND TECHNOLOGY,  
COMMITTEE ON SMALL BUSINESS,  
*Washington, DC.*

The Subcommittee met, pursuant to call, at 3:02 p.m., in Room 2360, Rayburn House Office Building, Hon. Mike Bost presiding.

Present: Representatives Bost, Luetkemeyer, and Moulton.

Mr. BOST. Good afternoon. Thank you all for being here today. We want to conduct this oversight hearing of the Office of Investment and Innovation at the Small Business Administration, or SBA. Providing robust oversight for the SBA is one of the most important functions of our Committee. The SBA plays a significant role in providing assistance to American entrepreneurs. The SBA provides small business with financing, entrepreneurial development, education, and government contracting assistance. Oversight helps ensure that the agency is effectively utilizing its resources to provide the service mandated by Congress and expected by the American people.

Throughout the month of January, our Committee is holding a series of oversight hearings examining all aspects of the SBA, its management, and its programs. We began last week and we heard an assessment of the Government Accounting Office, or GAO, on a report detailing inefficiencies and ineffective management operations throughout the SBA. Today we will examine the programs implemented by the Office of Investment and Innovation, or the OII, and its efforts to deliver effective assistance to entrepreneurs in an efficient manner.

The OII is responsible for administering several very popular programs offered by the SBA. The Small Business Innovation Research and Small Business Technology Transfer Programs provide government contracts for small business to develop cutting-edge technology needed by government agencies. OII also administers the Small Business Investment Company Program or SBIC. The SBICs are privately owned and managed investment funds. They are licensed and regulated by SBA. And the SBICs use their own capital plus funds borrowed with the SBA guarantee to make equity and debt investment in qualifying small businesses.

As I mentioned earlier, last week, our full Committee heard testimony from the GAO regarding several persistent problems with the SBA's management. The testimony and accompanying reports were quite troubling, to say the least. Bill Shear, the GAO's Director of

Financial Market and Community Investment, testified that the GAO saw that certain recurring themes happened over and over again all across the agency. This affected all aspects of its operations and its programs. Mr. Shear also testified that the SBA needs to commit to deal with these issues. The services provided by the SBA are too important not to take significant action to ensure the agency faithfully executes its duties.

It is my hope that through vigorous oversight, such as this Subcommittee hearing, we can begin to right these wrongs and get the SBA back on track. Our goal is making sure that the SBA continues to provide a service America's Small businesses need. We must work together to solve these problems because America's small businesses are counting on all of us.

Again, I want to thank you all for being here. I am looking forward to today's discussion.

I now yield to ranking member Moulton from Massachusetts for his opening remarks.

Mr. MOULTON. Thank you, Mr. Chairman.

Thank you for joining us here today.

The Office of Investment and Innovation performs a number of critical missions that help small businesses flourish. Many of the companies served by this division of the SBA are cutting-edge, high-technology enterprises with great potential for job creation. Entrepreneurs in these sectors have often different capital requirements than businesses operating in more traditional spaces. For instance, while a traditional bank loan may be the best financing for a new mom-and-pop hardware store, for a cutting-edge small pharmaceutical developer, equity capital is often a better fit for their capital needs.

OII helps meet this important need through its Small Business Investment Company, SBIC, program. In 2014, this initiative channeled \$50.7 billion to small emerging firms, helping many innovative firms mature, grow, and bring new products to market. While this important program has had great success, it is important that there is sufficient oversight so that it may reach its full potential. In the most recent appropriations legislation, the omnibus, Congress raised the leverage caps for family of funds SBIC licensees, permitting groups of funds to draw \$250 million in SBA leverage. Already, 20 SBICs are within 10 percent of the previous \$225 million cap. Six SBICs are already maxed out.

We can expect this additional leverage capacity to be utilized. Therefore, we should also ensure that there are appropriate safeguards in place to limit the exposure of taxpayer dollars. I look forward to hearing how SBA is managing this risk during the course of this hearing.

It is also worth looking at diversity among recipients of SBIC investment. Last year, only 6 percent of investments went to firms owned by women, minorities, or veterans. It is important that we encourage entrepreneurship among these disadvantaged groups. I would like to hear how today we can improve in this area.

In addition to the SBIC program, the OII oversees the Small Business Innovation Research Program and the Small Business Technology Transfer measure. The SBIR program is an important partnership between Federal agencies' R&D efforts and entre-

preneurs, harnessing small businesses' innovation to develop new products that meet Federal needs, which can later become commercialized for broader use. I have seen firsthand how this program has worked in the Boston area and recently met with the New England Innovation Alliance to discuss this important program.

One SBIR firm in my district, Aerodyne Research, makes state-of-the-art scientific instruments. These products measure gases or aerosol particles in real time and with great sensitivity. The firm has grown to over 60 employees and engages in millions of dollars in sales to the private sector.

The related STTR program helps commercialize R&D performed by small companies affiliated with universities and Federal laboratories. Like SBIR, this program harnesses the expertise of small firms on the cutting edge of research. Both programs are vital to our country's ongoing technological competitiveness. It is important that they too operate effectively and efficiently.

In 2011, Congress reauthorized both of these programs while making changes to ensure that small businesses are able to participate in the program and increase oversight. I am particularly interested to see the progress in implementing these changes and what the SBA is doing to ensure that the program is working effectively for small firms.

Mr. Chairman, small businesses in every sector are vital to the innovation that creates new products, sparks job growth, and will ensure that our Nation remains at the forefront of technological development. OII's programs provide critical support to small firms that are advancing this goal, and I look forward to hearing about how improvements can be made at SBA to maximize the value of these initiatives.

Thank you, and I yield back.

Mr. BOST. If Committee members have any opening statement prepared, I ask that they submit them for the record.

I would like to take a moment first off to explain the timing lights for you. Okay. You will have 5 minutes to deliver your testimony. The light will start out on green. When you have 1 minute remaining, the light will turn to yellow. Then, finally, at the end of the 5 minutes, it will turn to red. We just ask that you kind of adhere to these limits.

Our witness today is Mr. Mark Walsh, the SBA's Associate Administrator of Office of Investment and Innovation. He has over 30 years of experience as a technological entrepreneur, manager, and investor prior to serving at SBA. Mark was executive chairman of Homesnap.com, a computer application for residential real estate; and CEO and cofounder of GeniusRocket, a leading provider of crowdsourced marketing, right, for major brands of global non-for-profits. He has been a division head and a senior executive at technological and content companies like GE, AOL, HBO, and others.

More recently, he has been an active angel investor, shareholder, or board member adviser in a number of successful startups and high-growth companies and has been named one of the 100 Tech Titans by Washingtonian Magazine for each edition since 2009 until today.

Mr. Walsh, thank you for being here with us today. We recognize you for 5 minutes.

**STATEMENT OF MARK WALSH, ASSOCIATE ADMINISTRATOR, OFFICE OF INVESTMENT AND INNOVATION, UNITED STATES SMALL BUSINESS ADMINISTRATION, WASHINGTON, D.C.; ACCOMPANIED BY JOHN WILLIAMS, DIRECTOR, INNOVATION AND TECHNOLOGY, OFFICE OF INVESTMENT AND INNOVATION, UNITED STATES SMALL BUSINESS ADMINISTRATION, WASHINGTON, D.C.; AND CAROL FENDLER, DIRECTOR, LICENSING AND PROGRAMMING STANDARDS, SMALL BUSINESS INVESTMENT COMPANY (SBIC) PROGRAM, OFFICE OF INVESTMENT AND INNOVATION, UNITED STATES SMALL BUSINESS ADMINISTRATION, WASHINGTON, D.C.**

Mr. WALSH. Congressman Bost, Ranking Member Moulton, and distinguished members of the Subcommittee, thanks for inviting me to discuss SBA's Office of Investment and Innovation. I am pleased to detail our flagship programs, Small Business Innovation Research, Small Business Technology Transfer, and Small Business Investment Companies, as well as our successful support for accelerators and incubators.

I want to begin with a little more background on me. I joined the SBA about a month ago. Prior to my arrival, I was a venture capitalist, an angel investor, and a corporate director for a number of high-growth startups and more mature companies in a wide variety of industries. In addition, I spent the bulk of my career in the technology arena and served as CEO for a business-to-business content and e-commerce company during the late 1990s. Having spent over 30 years in the private sector, as was mentioned, I know the importance of this Committee and the contributions the programs in the Office of Investment and Innovation offer. I am honored to testify before this distinguished group and to serve as the new head of OII.

One of the best ways to communicate power of our programs is through examples. One of those is a San Francisco startup called Lift Labs. We all know the effects of Parkinson's disease, the tragic effects. Lift Labs creates an anti-tremor spoon that cancels up to 70 percent of the hand tremors associated with this disease. With this spoon, an affected individual is able to eat with dignity and confidence. This life-changing product received early stage capital from the National Institute of Health's SBIR program. This early influx of capital allowed Lift Labs to take its product from the research and development stage to market. Today, Lift Lab spoons can be purchased on Amazon.

Successful trajectories like these are a priority for my office in SBA. Last year alone, through my office's flagship programs, the U.S. Government provided \$2.5 billion to over 5,000 SBIR and STTR projects. And our 303 Small Business Investment Company investment partners managed over \$25 billion in private capital and SBA-guaranteed leverage and commitments, benefitting over 100 small businesses.

Our SBIR STTR program, labeled America's Seed Fund, is a key pillar in the Federal Government's strategy to provide seed capital to talented entrepreneurs in science, technology, and engineering. Since its inception in 1982, the program has awarded over 50,000 awards with \$30 billion in funding to early stage companies. SBIR- and STTR-funded companies have made lasting contributions to



the advancement of science and industry, and will continue to do so, like the example in Massachusetts that was cited.

Companies, like Lift Labs, with SBIR support look to be the next potential big employers like past SBIR recipients, companies like Qualcomm, Biogen, iRobot, and Symantec.

Our growth accelerator competition enters its third year. To date, this program has invested nearly \$7 million in 138 accelerators across these great United States. Accelerators in 43 States, including the District of Columbia and Puerto Rico, have received awards through this program. Last year alone, we awarded 88 prizes to accelerators of \$50,000 each. In the coming year, resources will be made available in the fiscal 2016 omnibus appropriation to all us to continue this valued program.

Our growth accelerator competition plays a crucial role in the entrepreneurial ecosystem by enhancing the effectiveness of organizations committed to providing financial and technical assistance to American startups and small businesses.

And speaking of buses, we plan to continue our SBIR bus tour with SBIR partners, including incubators in over 21 States later this year, spreading the good word about their work and their potential.

The Small Business Investment Company's history is equally rich. It channels long-term investment capital to America's small businesses. Since it was created in 1958, over \$80 billion has been invested, helping finance 170,000 American small businesses. In fiscal year 2015, the SBIC has invested over \$6.2 billion in total financing between the SBA leverage and our fund partners to 1,210 portfolio companies, which created or sustained roughly 130,000 jobs. That is a 15-percent increase in financing compared with fiscal 2014.

To conclude, as head of the SBA's Office of Investment and Innovation, I am committed to ensuring that more and more of our Nations' innovators and investors know about our programs and know how to access them. The SBIR, STTR, and SBIC initiatives are foundational components of our mission. All of us look forward to increasing success and demonstrable outcomes from the access to capital that we provide to America's most exciting arena: small businesses. Thank you.

Mr. BOST. Thank you. And because Mr. Walsh has been only in this position for a short time, we have asked that he be accompanied by senior members of his team during the questioning and answer portion of the hearing. Joining him at the table now will be John Williams, Director of Innovation and Technology for the Office of Innovation and Investment; and Carol Fendler, Director of Licensing and Programming for the SBIC program.

Thank you both for being here as well.

And I would like to yield myself 5 minutes for the questioning to start off with.

Mr. Walsh, I understand that you have experience in the private business sector, from what you explained. What were your initial impressions of how the SBA functions and what you have seen that would immediately—that you would like to improve on?

Mr. WALSH. Well, I spent my career, really, in innovation and investments. So the two I's of our office of OII were directly DNA-

level related to my background. So I was expecting to see a lot of alignment in the day-to-day of my team over there. And I have seen that, Congressman. We help small companies, be they startups with very small staffs using innovation and research for labs to more successful companies with positive cash flow and hundreds of employees through the various funding efforts that we have, point one.

Point two, we have a rich and robust network of over 300 professional investment firms whose debt leverage we help send out or their investment decisions are helped by the investments that we make with them.

My first impression is very positive to the overall structure of the program. Secondly, perhaps as importantly, I must admit I am incredibly impressed with the teammates that I have over at the office. I mean no disrespect to government in general, but sometimes people walk in expecting government to be more dysfunctional. In fact, I have found zero of that. I have been incredibly impressed with the professionalism, the caution, the care, and the, frankly, futuristic outlook of all of my teammates at OII.

I don't know enough about SBA in general. I am still learning my way through the hallways, but I do expect that across the board, I will find SBA to be as impressive as my teammates in OII in their professionalism and, lastly, in their commitment to the mission. SBA is one of the few organizations I see in the Federal Government with no regulatory power. We are about helping companies. I find that that both maps against my personal goals and my personal background. And it has been very, very encouraging to see it day-to-day in my office.

Mr. BOST. So the office works perfectly.

Mr. WALSH. I meant not to say that, Congressman. There is room for improvement in every single organization, believe me.

Mr. BOST. Okay. There is an important time change coming up here. We have a very short time for this President to be in office, and we are coming up on 2017. What action is being taken right now to ensure that the SBA leadership team can pick up right where it leaves off with a new administration? Do you have a transition plan in place, and what is your strategic plan for the long goal?

Mr. WALSH. I was lucky to have actually two predecessors in a row, both of whom I knew personally. In fact, my predecessor I helped recommend to get the job. So his transition plan that he left me was rich and robust and we, being friends, were able to have a very productive time together conversing before I physically took over. I arrived with a pretty good transition plan in place for the day-to-day operations of what I oversee at OII. I would expect I won't tweak that too much if I resign and move on in January of 2017.

But to the second part of your question, an important part, in my opinion, what kinds of initiatives do we think we can make some progress on in this coming year or start and leave in place with some energy behind them for my successor to take over and that man or woman to progress forward with those initiatives. I will give you one example. The accelerator and incubator program that we have initiated where we visit—we test—we had 800 applica-

tions from innovation incubators and accelerators around the U.S. We awarded prizes to over 88 last year. That is an amazing team and family of offices all around the U.S. in your States and many, many other States that are ready to give advice and help to companies that need that kind of commercialization advice. SBIR companies, which today often get grants but have a tough time crossing that desert, that chasm of investment in the innovation and research and becoming a commercialized company, we are looking to apply our innovation incubators and accelerators to map them geographically—against our SBIR awardees to give them that innovation incubation and accelerator advice to help them become more commercializable. That is a synergistic use of assets we are currently doing. We hope to get that started in 2016 and 2017 and have it ready for my successor if and when that man or woman comes aboard.

Mr. BOST. Wonderful. My last question before my time runs out, before we turn it over to the ranking member, is actually for Ms. Fendler. As part of the omnibus legislation passed last year, Congress increased the leverage allowable to the SBICs from \$225 million to \$350 million. This will help the SBICs raise more private capital and increase leverage for investment in the domestic small business. Have the standard operating procedures governing the SBICs' licensing been updated to reflect this change? If not, why?

Ms. FENDLER. Yes. We don't believe that there are any specific changes that need to be made to our standard operating procedures to accommodate this change. We think that the procedures that we have in place are the correct procedures for risk management. There are two things that we think will happen as a result of the increase in the family of funds limit. One thing is that we think there are managers of existing SBICs who will come to us sooner than they might have otherwise to launch a new SBIC. Second, we think that there are existing SBICs that are going to come to SBA for additional leverage commitments to take advantage of the higher ceiling. In either case, we think that we have got the right rigorous standards in place to manage that risk.

In the case of a brandnew SBIC, if we have a management team coming in to apply for a second fund or a third fund, our subsequent fund SBICs go through the same full licensing process that any other SBIC does. That begins with in-depth analysis of the financial performance and also the regulatory compliance of the existing SBIC or SBICs that we are already very familiar with. We have a very meaningful license review and approval process that involves approval right up to the highest level of the SBA, meaning final approval by the SBA Administrator.

With respect to existing SBICs coming in for additional leverage commitments, again, those commitments—any request for a new commitment is going to go through SBA's really very strict credit underwriting process. That includes financial analysis, risk analysis and, again, requires approval at multiple levels of SBA, concluding with Mr. Walsh.

The other aspect that really applies both to new SBICs or more highly leveraged SBICs is our monitoring process. We have really the same set of risk management and oversight procedures that we

apply to all licensed SBICs. We are continuously looking at each fund's financial performance and repayment prospects.

Now, the one key thing, obviously, not having unlimited resources is that we do focus our monitoring on funds where the exposure is highest. Certainly, we will be looking particularly closely at families of funds where our exposure has gone up to that full \$350 million.

Mr. BOST. Thank you.

With that, my time has definitely expired.

I want to turn 5 minutes over to the Ranking Member Moulton.

Mr. MOULTON. Thank you, Mr. Chairman.

Ms. Fendler, Mr. Williams, thank you very much for your service.

Mr. Walsh, you and I share our fellow alumni of a halfway decent business school up in Boston. You have a business career that far outstrips my own, however. There are many other things that you could be doing. We are very grateful that you have taken on this job in public service. So thank you.

Mr. Walsh, in the last SBIR reauthorization, Congress included a 3-year pilot program that allows agencies to use 3 percent of their SBIR funds to cover administrative costs associated with the program. However, we have yet to see any reports from the SBA on the effectiveness of the pilot and whether agencies are using these funds on allowable costs. With the recent extension of the pilot, what steps is your office take—what steps are your office taking to ensure that there is effective oversight of this pilot program? How many projects does each employee currently oversee?

Mr. WALSH. The 3 percent of the 3 percent—and thank you for your compliment about my educational background. I probably graduated a few years ahead of you just, for the record. But I did learn a lot there and thank you for your recognition of that.

The 3 percent of the 3 percent, as the shorthand to your point, is something that we still are relatively fresh to, and I may ask my colleague Dr.—John Williams—I call him Dr. Williams around the office sometimes—to flesh out the specifics of your answer. The idea of having that type of subset of the overall granting power from each of the agencies that we use to find innovative companies, one of which you cited, is something that we want to learn more about because whether we are the actual spender of those dollars from an infrastructure perspective or they are the spender of those dollars is something that we are learning more about.

With that, I will plead my 30-day ignorance level, which I have yet to use, but I will use it right now, Congressman, and I will ask John Williams to weigh in.

Mr. MOULTON. Fair enough. You have how many life lines left?

Mr. WILLIAMS. The program started with a slow start. And so we are actually just really getting into our third year where we are spending that money in contracts and things to provide assistance. We actually don't spend any of the money. All the money is out at the agencies. We are playing a role of monitoring. We are working on reports. We do have reports on what they plan to do with the money. They submit those to us every year. We are working, and we have got preliminary reports of what they have done with it. But what we want to see is results. And so—

Mr. MOULTON. Mr. Williams, when do you think we can expect to see those reports?

Mr. WILLIAMS. Next six—within 6 months.

Mr. MOULTON. Within 6 months.

Mr. WILLIAMS. Yes.

Mr. MOULTON. Okay.

Mr. WILLIAMS. 30 June.

Mr. MOULTON. Okay. Let me move on to the next question, Mr. Walsh.

Civilian agencies were given the authority to create commercialization pilot programs similar to the one currently in existence at the DOD in the last SBIR reauthorization. Can you tell us which agencies have taken advantage of this authority and created such programs?

Mr. WALSH. Again, I will plead—how many do I have? Two left? Is there three in “Who Wants To Be a Millionaire?”

My initial impression is clear that DOD is the lead dog in the example or the scenario that you have questioned us on. But I think others are becoming more and more robust. And, with that, again, I will look for validation.

Mr. WILLIAMS. Rephrase that question again.

Mr. MOULTON. So which other agencies besides DOD have taken advantage of this program?

Mr. WILLIAMS. Of the 3 percent?

Mr. MOULTON. It is the authority to create commercialization pilot programs similar to the one that currently exists in DOD. My understanding is that previously only DOD was authorized to do this. Now other agencies have been authorized as well. Have any of these agencies actually taken advantage of this authority?

Mr. WILLIAMS. Yes, they have. And the programs for the civilian agencies are a little bit different than the DOD's programs.

Mr. MOULTON. Okay.

Mr. WILLIAMS. There is a program called the Commercialization Pilot Program that both NIH and DHS use. And that is a program where they fund universities—dollars or push money through the universities using the SBIR dollars—to help do commercialization assistance to SBIR companies. Those two organizations, DHS and NIH, do it. NIH is a much larger program, and thus, their effort is larger.

Mr. MOULTON. My last question, because I am running short on time, Mr. Walsh, again, I understand that you have only been there for 30 days, but perhaps your colleagues can help with this. Last week, our Committee heard from the GAO on a number of open recommendations it had for the various programs at SBA. There are currently 10 open on the SBIR and STTR programs. Why are there so many pending recommendations for these programs? And what actions is your office taking to implement these changes?

Mr. WALSH. I will take a shot at that. As you might imagine, there has been a significant amount of energy directed to the specific challenge that you lay out. And my new office is not immune from that. The 10 or so that you suggest are SBIR centric. I think a couple at least are expired; i.e., that we actually have taken care of, but the reporting process is not as robust as I would like to see. But of the eight or so that are remaining, John Williams' team and

I have really made a commitment to ourselves that we will investigate each and every single one and try and take it off the docket so it is no longer an issue of conversation between the Committee and what we do.

I am not able to give you a specific date. But I can guarantee you; I pledge that I look forward to conversing with you and your teams and keeping you fully informed as to how we are knocking off each and every one of those over time.

Mr. MOULTON. And my time has expired, but I just want to emphasize, I think you are right that if we could just have some more communication about how this is going, it may reduce some of the friction between the SBA and the Committee.

Mr. WALSH. I look forward to you seeing me do that.

Mr. MOULTON. Great.

Thank you, Mr. Chairman.

Mr. BOST. With that, I want to recognize the gentleman from Missouri, Mr. Luetkemeyer.

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

Welcome, Mr. Walsh.

To follow up on the last question a little bit because I am kind of concerned you are walking into a quagmire here. You know we had 69 open recommendations from GAO. You still had 10 when you walked in in your area. This isn't something that happened last year. This is stuff that has been dragging on for years. Same thing with standard operating procedures. Had one example here, SOP for licensing SBICs in 1984, which was not modified until 2014, despite the fact that SOP failed to address the application for new types of SBICs credit in 1984.

You know, some of your predecessors were pretty lax. Not very competent, quite frankly, in getting things done. We are looking forward to your expertise being able to get some things done, hopefully shake up what is going on here. Because, obviously, the taxpayers and our citizens deserve better. I am a big fan of SBA. I think it has got lots of opportunities to help lots of people. But, obviously, when GAO comes in with recommendations that 80 percent across the board of other agencies get their recommendations done and the recommendation of Small Business is 50 percent, we got a problem. These are important. They are not something to just blow off. Hopefully you take it seriously. I am willing to give you a pass on it because I have been in places before where we started 30 days in, and it takes a while to get things done.

One of the other questions I have: Over all the programs that you see, how many of them are loan programs versus grant programs?

Mr. WALSH. The SBIC program is a loan program. We grant debt leverage to professional investment entities, venture capital firms, private equity firms, business development corporations or banks in some cases, and they take that leveraged debt to add on to their investment. That is SBIC. SBIR is a grant program.

Mr. LUETKEMEYER. Okay.

Mr. WALSH. The accelerator and incubator program is also a grant to those incubators. So two are to grant; one debt.

Mr. LUETKEMEYER. Very good. How is the past-due ratio? What is the size of your portfolio on your loans, and what is the past—if you don't know, I wouldn't—

Mr. WALSH. Well, the debt portfolio stands today at about \$25 billion.

Mr. LUETKEMEYER. Okay.

Mr. WALSH. Our loss ratio all in is about 3.5 to 4 percent.

Mr. LUETKEMEYER. What is your past-due ratio?

Mr. WALSH. Past-due ratio I do not know. I will have to get back to you on that.

Mr. LUETKEMEYER. That is fine. I was just curious. It is a question that I ask quite often of people who oversee different programs, loan programs. I was formerly in the financial services world. If you don't watch those things, how do you know what is going on? I asked this of your colleague yesterday, Ms. Sanchez, and her answer to me was—she had a \$1.4 billion portfolio—“Oh, we don't have any past dues. The banks take care of that,” which was a breathtaking comment.

Absolutely stunning that she had no idea, being there for a significant amount of time, what her past due ratio was of over a billion dollar portfolio. That is unacceptable. This is something that, to me, is important. Hopefully you will take that to heart and continue to watch it very carefully. We want to make sure we are good stewards of the taxpayers' dollars here and make sure they get good value for their investment.

Mr. WALSH. I will not return without knowing that ratio, Congressman.

Mr. LUETKEMEYER. That is not a knock on you, by the way, today. It is something that I think you should know. It is something that you should look at every month on your monthly reports where you are at. See what the economy is doing and how your loans are doing and see what your loan officers that are out there in the field how they are doing.

Just some general questions. Mr. Shear was here last week and used the term siloed where he—because various parts of the agency can't effectively communicate with other parts, believes some mistakes can be repeated. He talked about that. How do you see your part of the agency? Do you interact a lot with other SBA administrators—administrative personnel throughout the agency, with the executive officer themselves, herself? Do you feel isolated by where you are at? Quite frankly, with your background, you may be isolated. I don't know anybody else in the whole place who has got more background to do what you are doing and what you do compared to everybody else. Quite frankly, the rest of them scare the heck out of me. My question is, your interaction with other folks within your agency, how has it been so far? What are your concerns?

Mr. WALSH. I am flattered with your opening description of me. Thank you for that.

I worked for some very large private sector organizations like General Electric and a wide variety of others. As we know, there is siloing in every organization, be it private sector or public sector. I, frankly, was expecting more, Congressman. But, for instance, I came to the Hill to speak to you today directly from a weekly staff

meeting that the chief of staff has with all of the—my level associate administrators for each and every part. We go around the room and try and keep each other informed. I am very encouraged, bluntly, on the lack of siloing, at least my access to each people at my level, the Deputy Administrator, and the Administrator herself.

Now, to your point on whether that siloing ends up becoming duplicative, I look forward to learning more and more about that and reporting to all of you on the types of things that I see. But early returns from my experience are I have access to anybody at my level that I wish to. In fact, they welcome me with lunches and other types of informational sessions. I have access to the Administrator, the Deputy Administrator, the chief of staff, whenever I need to. I see no siloing as far as behavior. But I look forward to learning more and more about—I hesitate to use the term, but more and more about commonality amongst our efforts.

Mr. LUETKEMEYER. Very good. I see my time has expired.

Thank you, Mr. Chairman.

Mr. BOST. Thank you.

And I would like to take another 5 minutes if I can. Just a couple more questions. And these are directed toward Mr. Williams.

All right. We are going to give you a chance to throw somebody under the bus. Okay? How well do the agencies provide the SBA with the information that they need to produce the yearly SBIR reports?

Mr. WILLIAMS. How well do they do it?

Mr. BOST. How well do they provide you with that information?

Mr. WILLIAMS. Well, so what has happened, and the fault goes on all agencies and all sides, and SBA is part of that, is that we have been working over the last probably 2 years—so I came in December 1—2 to 3 years on developing a more automated upload system called SBIR.gov where we will pull in all the information. In the past, we almost got information in access form—Excel documents. There was a real challenge of getting that information. It was easy to put it into a report, but our goal was to actually pull that information up on our Web site. Now realtime you can look at data up until 2014 and kind of do mapping and tracking so you could look at what was in Massachusetts, Illinois, how many awards, what the companies were, and things like that. Our focus over the last year since I have been there is to work with each agency's system because each agency has a different database system, a different contractor. That effort was a lot harder than I thought. It takes money and resources on both our side and their side to get everyone to kind of do this different way of uploading information in more realtime.

We made a lot of progress there. We are behind on the reporting now taking that data and actually put it into documental reporting. We hope to have some of that to you pretty soon. It is moving through our agency. But my first goal was to be able to get that information transparently out on our SBIR.gov so everyone could see it as opposed to focus on reports.

Mr. BOST. Which leads to the other question. Because that was a major concern of GAO's. Okay? It is you are required by law to give the annual reports. So the SBIR reports right now that we are missing are 2013, 2014, 2015.



Mr. WILLIAMS. Correct.

Mr. BOST. How quick do you think that we could actually get those and be in compliance with the law?

Mr. WILLIAMS. 2013 I think can be—well, so it is hard to put a date because the way those work is then we release them to OMB, OMB releases them to the agencies. Agencies comment back, and then we release them to the public. There are a lot of dates that aren't in my control. I am uncomfortable saying it will be by this date, but we are working on it. We are close to releasing them, the 2013 to OMB, and then, shortly after that, depending on what the comments back from the agencies are, it can go faster or—

Mr. BOST. Maybe that is something that you can give to our Committee as to what we can do to help you get that done because it is very hard to explain to the general public—

Mr. WILLIAMS. Right.

Mr. BOST. —that we have in law that you will be reporting. Then whenever these investigations come out, and all of a sudden, they are 2, 3 and 4 years behind, that we haven't done it. So—

Mr. WILLIAMS. I would be glad to follow up with the Committee on that.

Mr. BOST. Let's shift. The Department of Commerce operates regional cluster initiatives, which received about \$10 million in fiscal year 2015 and \$15 million in fiscal year 2016. The SBA also operates a cluster program. And the Small Business Act provides SBA with duplicating the programs of other agencies. You can't—why does the SBA continue to allocate funds to this program when it appears that that would be duplicative from the Commerce program?

Mr. WALSH. Cluster is not—right?

Mr. WILLIAMS. It is not under—

Mr. WALSH. Cluster is—the cluster program at SBA is not part of OII. But I will look forward to researching it and getting back to your team, if you like.

Mr. BOST. That is what we are needing to try to find out because our understanding is we are not supposed to be duplicative with this and—

Mr. WALSH. That is an admirable goal. We will gather more data and get back to you, but OII is not the administrator of the cluster program at SBA.

Mr. BOST. Okay.

With that, I will yield.

Mr. Moulton, do you have any more questions?

Mr. MOULTON. Mr. Chairman, I just have one additional question.

Mr. Walsh, I realize that there are concerns regarding proprietary information related to SBIR, STTR programs, particularly when the SBIR grant is related to the Department of Defense. As we begin the reauthorization process, it is important that we know more about the effectiveness of this program so that we can understand what parts need to be reauthorized. Where traditional metrics, such as how many jobs are created, revenues created, or companies created, are not applicable, we look for output measures instead, like papers and patents. Where SBA programs funded by NASA and DOD might be effective but not provided for—but not

provide traditional metrics, what is the measure we should be using to judge the success of these programs?

Mr. WALSH. Congressman, I think you have touched on one of the questions that in my time in this job I look to get more traction on. I think that you can ask a wide variety of people, even amongst my team, and potentially get different answers. Not that that is wrong, but you can get different answers.

To your point, clearly, one obvious metric would be the number of SBIR grants that become commercializable companies with employees, products, and sales. Based upon an Air Force study using that as an indicator of SBIR grants writ large, about 48 percent of SBIR grants turn and generate revenue. Now that is a second broader interpretation.

Mr. MOULTON. Sorry, what percent?

Mr. WALSH. Forty-eight percent of SBIR grants generate revenue.

Now, I have said that specifically because that is not necessarily selling products to companies——

Mr. MOULTON. Sure.

Mr. WALSH. —with a product, per se. It is getting a license for your technology and a wide variety of other ways to generate revenue. I personally, again, 30 days in, prefer revenue as a judgment yardstick to continue to look at how many SBIR grants turn into an entity that either licenses its technology, is sold as a full entity to another larger entity, be it commercial entity, or has a contractual revenue-generating relationship with DOD or some other force in the company, or has in the private sector a commercializable product that sells itself to customers and is paid for? Although that sounds very broad, that would be my personal yardstick I am looking to apply against SBIR grants. Hopefully we will have a robust percentage of those that generate revenue.

Mr. MOULTON. Okay.

Mr. Williams or Ms. Fendler, do you have any other comments on that?

Mr. WILLIAMS. No. Those are the marks we look at. It is, you know, spinouts, licensing, revenue dollars, and any potential job growth are all good measures. The challenge is they all take time, you know, from the investment to when you hit those marks. We have to measure them over time. But that is something that we are responsible to do, and we are taking action to try to do a better job with that.

Mr. MOULTON. Okay.

Thank you very much, Mr. Chairman, and I yield back.

Mr. BOST. Mr. Luetkemeyer, do you need 5 minutes?

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

Yesterday, we had also someone in here, and they were authorized to have 30 different people help them with the trade portion of SBA. They only had 19. It begs the question, number one, who pulled 30 out of the air? Was it the Congress said, “Well, we need to have 30,” or was it the SBA who said, “We need 30”? And if so, do we need 30? Are we underfunding or overfunding? Are they overworked, underworked? As a result, we got into some interesting conversations and found out that they really don’t even do much with the 19 they have got.

My question to you, sir, is, in your brief time there, have you looked at the personnel? You already commented you like what you have—but I am looking at the numbers—to adequately do your job. Do you need more? Do you need less? Are you overemployed? Underemployed? What do you see, and where do you see it going?

Mr. WALSH. I might remind the Committee that I worked for Jack Welch at GE. And Jack Welch was famous for saying, “You can always do more with less.” I am not quoting nor am I channeling Chairman Jack Welch in this conversation. But it is certainly one of my goals during this coming year to employ every possible technology—and I use that term in a pretty broad perspective—every possible use of technology to make the folks on my team as productive as possible in the hours in the office and when they are traveling. Now, that can be something as small as perhaps maybe a better BlackBerry. I use that advisedly. I got my government-issued BlackBerry, and it is great to see that technology again. I say that with a small smile on my face. But, no, using technology that makes them more productive in the office and on the road. Technology to process the paperwork that we get more rapidly and to keep that paperwork in the cloud in a digital way more efficiently and more accessibly by the other elements of SBA or other elements of the government. And then, perhaps most importantly, because the question thematically has been this way, tracking, using technology to track what happens, both with our SBIR partners at the agencies, the companies that get SBIR grants, the companies that get SBIC investment, and the accelerators and innovators that we touch every year.

Now, technology is something that you can lean upon too hard sometimes in my professional career, I have seen, and the output is not that appealing. Technology is not a solution, but it is a way to make each and every one of the 80 or so people on my squad be more productive.

As far as the initial part of your question, I like our number. We have a few open reqs, but I think we have an extraordinarily productive group of people. I like the team I have got, and I think we are going to have a really productive 2016 with them.

Mr. LUETKEMEYER. Along those lines, you are talking about—one of the weaknesses that GAO pointed out in their report was IT, informational protections. In your particular area, do you have that problem, or do you see that as a weakness?

Mr. WALSH. I do not see it as a problem or a weakness. However, vigilance is our middle name. I refuse under my watch at OII to let our vigilance on the concern and protection of the data drop. It is something we think about every single day and we have meetings about. So, like you, I think that vigilance on our data is a primary concern.

Mr. LUETKEMEYER. You haven’t been there a long time, but I am sure you have kind of gone through everything. What do you see as the weaknesses of your agency that you oversee, the departments you oversee, and what are your solutions at this point, or have you got some? And I have got about a minute and a half left. So——

Mr. WALSH. I will give you one brief example.

Mr. LUETKEMEYER. Yeah.

Mr. WALSH. We have not attracted venture capital companies to the SBIC program in as robust a fashion as I would like. I spent a lot of time in the venture capital industry prior to arriving here. We all know the major venture firms out in Silicon Valley, et cetera. But there are many venture firms throughout the U.S. that invest in great companies in States represented by you that I would like to reach out more to. Part of my job, and even when I ran a publicly traded company as CEO, part of my job was in sales. So I perceive that part of my job in this coming year is to travel to those States and to those venture capital companies and show them that SBICs are open for business. It is an efficient way to add leveraged capital to a venture capital fund that is investing in American businesses, both in debt and equity. I think if you look back at my year, it is a sprint, but I would like to look back on the track and see that I made some progress in that specific arena.

Mr. LUETKEMEYER. Well, that is a fabulous idea. I was going to elaborate on that. Can you—you would partner—have the SBICs partner with the venture capitalists on the outside, which they do not do now. Is that what you are trying to say?

Mr. WALSH. No. We have a new type of SBIC—I say “new.” It is a new initiative in SBIC. It is called Early Stage Fund. It is structured financially so that the interest is paid out on the back end of the decade of the interest, which means that the first 5 years, the interest fee—interest payments are not made. They are paid in the second 5 years, which means that a venture capital fund, like, you know, Andreessen Horowitz, some of the famous ones that we know out in the West Coast or in ZIP Codes that currently are not served by traditional venture funding, can take those dollars and invest in equity, in equity, in innovative and transformative companies and not have to pay the interest fees which traditionally SBICs have. Today SBIC is really a debt shop. We loan money to professional investors, and they put it out to companies that can afford to pay the interest. With this new early stage investment fund, we can get with venture funds who will invest in companies that are pre-revenue but have a great product and a great future ahead of them. That is part of my sales job is to get out and get that message out there.

Mr. LUETKEMEYER. Impressive. Thank you very much for your service and willingness to do what you do. Thank you, sir.

Mr. BOST. With that, Mr. Moulton has no other questions.

And, Mr. Luetkemeyer, do you have—okay.

With that, again, we want to say thank you to Mr. Walsh.

I want to thank you each for being here.

The hearing in which we discussed GAO last week showed recurrent and systemic problems with the management at SBA. These deficiencies must be addressed because so many entrepreneurs depend on services that you provide through the SBA. We must work together to ensure that good incentives, like the SBIR, STTR, and SBIC programs, continue to help small businesses stimulate the economy, create jobs, and rebuild our country.

I sincerely hope that you, Mr. Walsh, in your new position, and all of your colleagues at the SBA, will be willing to work together with us in Congress in achieving that goal.

I ask unanimous consent that the members have 5 legislative days to submit statements and supporting material for the record.  
Without objection, so ordered.  
The hearing is now adjourned.  
[Whereupon, at 3:53 p.m., the subcommittee was adjourned.]

**A P P E N D I X**



**U.S. Small Business Administration**

**TESTIMONY of**

**MARK WALSH**

Associate Administrator, Office of Investment and Innovation  
U.S. Small Business Administration

**House Small Business Committee**

Subcommittee on Health and Technology

Tuesday, January 12, 2016

Chairwoman Radewagen, Ranking Member Moulton and distinguished members of the Subcommittee, thanks for inviting me to discuss the SBA's Office of Investment and Innovation. I'm pleased to detail our flagship programs—Small Business Innovation Research (SBIR)/Small Business Technology Transfer (STTR) and the Small Business Investment Companies (SBIC)—as well as our successful support for Accelerators and Incubators.

I want to begin with a little background on me. I joined the SBA a month ago. Prior to my arrival, I was a venture capitalist, angel investor and corporate director for a number of high growth startups and more mature companies in a wide variety of industries. In addition, I spent a bulk of my career in the technology arena—and served as CEO for a business to business content and ecommerce company during the late 1990s. Having spent over thirty years in the private sector, I know the importance of this committee and the contributions that programs in the Office of Investment and Innovation (OII) offer. I'm honored to testify before this distinguished group and to serve as the head of OII.

One of the best ways to communicate the power of our programs is through examples. One of those is a San Francisco startup called Lift Labs. We all know about the effects of Parkinson's disease. Lift Labs created an "anti-tremor" spoon that cancels up to 70% of the hand tremors associated with the disease. With this spoon, an affected individual is able to eat with dignity and confidence. This life changing product received early stage capital from the National Institute of Health's SBIR program. This early influx of capital allowed Lift Labs to take its product from the research and development stage to the market. Today, Lift Labs spoon can be purchased on Amazon.

Successful trajectories like these are a priority for my Office in SBA. Last year alone through my Office's flagship programs, the U.S. government provided \$2.5 billion to over 5,000 SBIR and STTR projects and our 303 Small Business Investment Companies investment partners managed over \$25 billion in private capital and SBA guaranteed leverage and commitments, benefiting over 1200 small businesses.

Our SBIR/STTR program, labeled "America's Seed Fund", is a key pillar in the federal government's strategy to provide seed capital to talented entrepreneurs in science, technology and engineering. Since its inception in 1982 the program has awarded over 50,000 awards with \$30B in funding to early stage companies. SBIR/STTR funded companies have made lasting contributions to the advancement of science and industry and will continue to do so. Companies like Lift Labs, with SBIR support, look to be the next potential big employers like past SBIR recipients—companies like Qualcomm, Biogen, iRobot, and Symantec.

Our Growth Accelerator Competition enters its third year. To date, this program has invested nearly \$7 million in 138 accelerators across the United States. Accelerators in 43 states, including the District of Columbia and Puerto Rico, have received awards through this program. Last year alone, we awarded 88 prizes to accelerators at \$50,000 each. In the coming year, resources made

available in the FY 16 Omnibus appropriation will allow us to continue this valued program. Our Growth Accelerator Competition plays a crucial role in the entrepreneurial ecosystem by enhancing the effectiveness of organizations committed to providing financial and technical assistance to American start-ups and small businesses. And speaking of “Buses”, we plan to continue our SBIR bus tour with SBIR partners including incubators, in 21 states later this year, spreading the good work about their work and their potential.

The Small Business Investment Company’s history is equally rich. It channels long-term investment capital to America’s small businesses. Since it was created in 1958, over \$80 billion has been invested helping finance 170,000 American small businesses. In FY 15 the SBICs invested over \$6.2 billion, in total financing between the SBA leverage and our fund partners, to 1,210 portfolio companies which created or sustained roughly 130,000 jobs. That is a 15% increase in financings compared with FY 14. Each year we acknowledge two SBICs of the year. In 2015, these awards went to Monroe Capital of Chicago, IL which has had three licensed SBICs, and has invested \$260 million in 33 small businesses that employ. The second SBIC of the Year for 2015 was NewSpring Capital from Radnor, PA. NewSpring has had three licensed SBIC funds, and has invested in 55 companies.

As head of the SBA’s Office of Investment and Innovation, I am committed to ensuring that more and more of our nation’s innovators and investors know about our programs and know how to access them. The SBIR/STTR and SBIC initiatives are foundational components of our mission. All of us look forward to increasing success and demonstrable outcomes from the access to capital we provide to America’s most exciting arena: Small Businesses.

